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increased demand for goods is great enough and of long duration, that limit would ultimately be reached, when wages would rise.

The rise in prices and in wages would increase the expenses of mine owners, and consequently lower their profits. Production would cease at the poorest mines, and the supply of gold would decrease. Thus "in the long run" production at the "marginal mine," would indirectly regulate prices.

It thus appears that the rise in prices in the case we have been considering would be brought about by the increase in the circulating medium, that is, by the offer of gold for goods, and that the older writers were therefore correct in this particular instance.

But it also appears that the rise in general prices would be a much more complex process than it appeared to them to be. From what has been said it follows, for example, that even in a condition of money economy, that is, where money is actually used in making all exchanges, the change in the general price-level would not necessarily be *proportional* to the change in the quantity of the medium. As a proposition in logic, it is doubtless true that if there is no increase in the quantity of goods to be exchanged, and no change in the rapidity of circulation, doubling the amount of money in circulation will double price. But the proposition is worthless in practice, because one of the conditions would not remain true. There would be an increased supply of goods. Furthermore, the new demand would not reach all goods equally, as is stated by Mill. This point is so plain that further comment seems unnecessary.

There are doubtless other ideas clinging to the old quantity theory that are not true, but the one proposition which the early writers considered vital, that an increase in the quantity of money in circulation will raise prices, seems to rest on solid ground.

W. S. PARKER.

RELATION OF BUSINESS PROFITS TO INDUSTRIAL DEPRESSION.

AT one or two points Professor Carver's acute and suggestive discussion—in the May number of the *Quarterly Journal of Economics*—on the relation of business profits to industrial depression appears to leave something to be desired. It is true that, with shoes selling at two dollars per pair, the concern which, at that price, has left for itself no margin for dividends (is this quite equivalent to fixing its cost at

two dollars?) is worthless, if the situation is assumed to be a permanent one. A selling price of \$2.25 may give a dividend of \$25,000 which, capitalized on a 5 per cent. basis, will support a market value for the corporation of \$500,000. And if the profit per pair of shoes is fifty cents, a capitalization of \$1,000,000 will be justified. So a fall of one-tenth in the selling price of products may, as Professor Carver points out, reduce the value of the business by one-half, while a fall of one-fifth would cancel the value altogether. "This may be stated as a general law, to the effect that a slight fluctuation in the value of a product tends to produce a violent fluctuation in the value of the establishment producing it."

All this may be, and indeed must be, accepted; but the further formulation, "In still more general terms, the value of producers' goods tends to fluctuate more violently than the value of consumers' goods" needs not—and, as it seems to the present writer, cannot—be accepted.

It is certainly questionable whether wages and prices of raw materials rise more rapidly than their products; the law is generally formulated to the other effect—that wages and profits rise as the result of a rise in products and at some interval behind the products. This latter formulation has, indeed, some statistical evidence in its favor. Dun's review of January 4, 1895, having called attention to the fact that on August 10, 1893, prices touched the lowest point ever reached up to that time, namely, 72.76 per cent. of the level of 1860, goes on to say:

But early in 1894 prices dropped below all previous records, and have never recovered, the average on December 26 being only 68.73 per cent. of the prices in 1860. . . . The fall since a year ago has been 5½ per cent. . . . The changes contrast sharply with the declining wages paid per hour's work, which averages only 1.2 per cent. less than a year ago.

Professor Carver's statement should, perhaps, be amended to read that the fluctuations in the value of the stock are violent compared with the fluctuations in the value of the product; but not at all, or at all events not necessarily, that the value of the plant exhibits the same violence of fluctuation; still less that this violence of fluctuation holds for the value of producer's goods generally.

The higher value of a stock expresses the higher dividend-producing power of the corporation as a going concern possessed of good will, trade connections, and franchises, as well as of plant—an existing business aggregate or complex, organized and equipped in readiness

to take advantage of the situation, and to participate in its opportunities. The high capitalized value is reflected back by the profits upon the group of facts upon which the profits depend—a value attached rather to the grouping than to any one or to all of the productive facts in the group, at all events, it is not a value inhering especially in the plant in any sense of the term corresponding to the category of producers' goods.

It is, then, it appears, more than dubious to say that "the fluctuations in the value of the shoe factory would tend to produce still more violent fluctuations in the value of the establishments producing its different parts."

Thus, even under the limitations later set forth by Professor Carver, the law as formulated appears to be fundamentally unsound: "The further removed the producers' goods are from the consumable product, and the more remotely their value is derived from that of some consumable product, the more violent the fluctuations in value tend to be." The earlier formulation seems adequately to cover the case. But it is well that the striking lack of proportionality between profits and the prices of products should receive so adequate and so illuminating a statement.

H. J. DAVENPORT.